

PERS PREFUNDED RETIREE HEALTH BENEFITS TRUST FUND

INVESTMENT POLICY STATEMENT

1. *FUND CHARACTERISTICS AND CONSTRAINTS.*

The Prefunded Retiree Health Benefits Trust Fund was established in 1989 for the purpose of prefunding and providing hospital benefits coverage and medical benefits coverage in accordance with Chapter 54-52.1 of the North Dakota Century Code.

The Plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium. Monthly benefits are calculated as: Number of Year of Service x \$4.50. Eligible members are those PERS, Judges, Air Guard, and Highway Patrol retirees who are participating in the Uniform Group Health Insurance program. As of June 30, 1994, an estimated 2,636 retirees are eligible for the program with 2,105 participating currently.

Funding is provided by a monthly employer contribution of one percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment. Benefits of \$2,051,606 in fiscal year ending 1994 were netted against contributions totaling \$3,087,206 producing net positive cash flow of \$1,035,600. Benefit payouts are expected to increase at the rate of 5% per year for the next 10 years, while contributions are expected to grow at 5%. Net positive cash flow into the fund is expected for the next 20 years.

As of the June 30, 1994, actuarial evaluation date, the fund's unfunded liability stood at \$33,895,600, with assets totaling \$8,099,500 and a funding ratio of 19.3%. The unfunded liability is amortized over a 40-year period, with 36 years remaining. The actuary assumes a 7.5% rate of return on assets.

2. *RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).*

Under NDCC 21-10-06, the SIB may provide investment services for non-statutory funds on a contract basis. NDCC 21-10-07 requires that the assets of the Fund be invested in accordance with the prudent investor rule.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selection of performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as it is prudent to do.

3. *INVESTMENT OBJECTIVES.*

The investment objectives of the Fund reflect the long time horizon, funding constraint, small asset base, and need for capital growth. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Obtain a favorable return on invested assets through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Provide for growth of capital by emphasizing equity exposure in the Fund's asset allocation.

Objective #3: Minimize investment costs and risk of under performing the stock and bond markets through investment in S&P 500 stock index and Lehman Aggregate bond index funds.

Objective #4: Maintain as closely as possible an asset allocation of 60% domestic equities and 40% domestic fixed income.

4. *STANDARDS OF INVESTMENT PERFORMANCE.*

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 60% S&P 500 Stock Index and 40% Lehman Brothers Aggregate Bond Index.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

5. *POLICY AND GUIDELINES.*

The asset allocation of the PERS Prefunded Retiree Health Benefits Fund is established by the PERS Board, with input from money managers and the RIO staff. Asset allocation is based upon the appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of the Fund's objectives, needs, and capital market expectations, the following asset allocation is deemed appropriate for the Fund:

Domestic Equities	60%
Domestic Fixed Income	40%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. The prudent investor rule will apply.
- b. Futures and options may be used to hedge, but not for speculation.
- c. The investment performance target of the equity allocation is the S&P 500 Stock Index return.
- d. The investment performance target of the fixed income allocation is the Lehman Aggregate Bond Index return.
- e. All assets will be custodied by the SIB's master custodian or such other custodians as are acceptable to the SIB.

6. *EVALUATION AND REVIEW.*

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted as deemed appropriate by the SIB but at least annually.

Money managers hired by the SIB will be monitored by the SIB at least quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

PERS Board

Spaul Collins
By:

9/15/95
Date:

Accepted by State Investment Board:

Paul Egan
By:

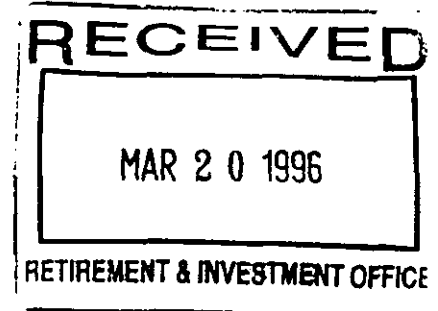
10-4-95
Date:



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1214
Bismarck, North Dakota 58502

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

MEMORANDUM



TO: Scott Engman
Executive Director, RIO

FROM: Sparb *[Signature]*

DATE: March 18, 1996

SUBJECT: Retiree Health Insurance Credit Program

I am writing to you concerning the recent action of the PERS Board relating to the Retiree Health Insurance Credit program (formerly the Prefunded Retiree Health program). The Board heard a presentation from Karen Kellerman and reviewed a report that she prepared concerning the asset allocation for that program. They adopted her recommendation that the new asset allocation should be composed of the following index fund:

EQUITIES:

S&P 500	38%
US Small Cap:	10%
EFAE:	<u>12%</u>
Total Equities:	60%

FIXED INCOME:

L B Aggregate:	40%
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As you will note, the above changes diversify that fund into small cap and international investments that we do not presently have.

If you have any questions concerning the above, please feel free to give me a call.



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1214
Bismarck, North Dakota 58502

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JUL 31 2000

NDRIO

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377
FAX: (701) 328-3920

July 27, 2000

Steve Cochrane
Executive Director
Retirement & Investment Office
P O Box 7100
Bismarck, ND 58507-7100

Accepted by
SIB on
July 21, 2000
cf

Dear Steve:

I am writing concerning the revised asset allocation for the Retiree Health program. The PERS Board recently completed its asset allocation study concerning this program and is requesting implementation of the following:

Domestic Large Cap	35%
Domestic Small Cap	15%
International Equities	15%
Domestic Fixed Income	35%

You will note that the revised asset allocation increases the total equity exposure for this program from 60% to 65%. The expected portfolio return is 9.4% with a portfolio risk of 10.6.

If I can be of any assistance or answer any questions concerning the above, please give me a call.

Sincerely,

Sparb Collins

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|------------------------------------|-----------------------|-----------------------------------|
| • FlexComp Program | • Retirement Programs | • Retiree Health Insurance Credit |
| • Employee Health & Life Insurance | - Public Employees | • Deferred Compensation Program |
| • Dental/Vision Program | - Highway Patrol | • Long Term Care Program |
| | - National Guard | |
| | - Judges | |
| | - Prior Service | |